AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA LEGISLATURE AND THE COUNCIL ON THE GOVAN MBEKI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the Govan Mbeki Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Govan Mbeki Local Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

Enquiries of management and the attorneys revealed that the municipality is a defendant in a number of lawsuits amounting to approximately R8 315 224 as disclosed in note 52 to the financial statements. The outcome of these lawsuits cannot be determined at present and no provision has been made for any liability that may result.

Unauthorised expenditure

As disclosed in note 46.1 to the financial statements, the municipality incurred unauthorised expenditure of R15 689 456 as a result of exceeding budgeted amounts in terms of the votes.

Restatement of corresponding figures

As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during 2010 in the financial statements of the Govan Mbeki municipality at, and for the year ended 30 June 2010.

Impairments

As disclosed in note 33 to the financial statements, there was a significant impairment of debtors amounting to R129 017 153 due to the poor collection of moneys owed to the municipality by consumers.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), and financial management (internal control).

Predetermined objectives

Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

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Non-compliance with regulatory requirements

Lack of adoption or implementation of a performance management system

The municipality did not adopt a framework that described and represented how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement would be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Existence and functioning of a performance audit committee

The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

The internal auditors of the municipality did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee.

No mid-year performance assessments

The accounting officer of the municipality did not by 25 January assess adequately the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

Reasons for major variances between planned and actual reported targets were not documented

Adequate explanations for major variances between the planned and the actual reported targets for 30% of the reported targets were not documented.

Usefulness of information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit findings relate to the above criteria:

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Reported information not consistent with planned objectives, indicators and targets

The municipality did not report on its performance against predetermined objectives, indicators and targets, which were consistent with the approved integrated development plan.

Planned performance targets not measurable and time bound
For the selected objectives, 100% of the planned targets were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

Compliance with laws and regulations

Municipal Finance Management Act

Audit committee was not properly established or not functioning properly

Contrary to the requirements of section 166(2)(a)(v) and 166(2)(a)(viii) of the MFMA, the audit committee did not discharge its mandate as required by the act, mainly due to its late appointment.

Internal audit unit was not properly established or not functioning properly

Contrary to the requirements of sections 165(2)(b)(iii) and 166(2)(b)(v) of the MFMA, the internal audit unit did not discharge its responsibilities as required by the act, mainly due to its late appointment.

Expenditure was not paid within the parameters set by the applicable legislation

- Contrary to the requirements set out in section 65(e) of the MFMA, expenditure was not paid within 30 days from the receipt of invoices.

- Contrary to the requirements of section 116(1)(a)(i) of the MFMA, goods and services supplied by providers were paid for without a valid written and signed contract.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and compliance with laws and regulations.

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Leadership

Oversight responsibility

The accounting officer did not adequately exercise oversight responsibility over reporting, compliance with laws and regulations, and internal control.

Financial and performance management

Quality, reliable monthly financial statements and management information

- The financial statements were subject to material amendments resulting from the audit.
- The financial statements and other information to be included in the annual report were not reviewed for completeness and accuracy prior to submission for auditing.
- The annual performance report was not submitted for auditing as per the legislated deadline.

Governance

Risk identification and management designed to identify changes in processes or risks and verify that the design of underlying controls remains effective

- The entity did not identify risks relating to the achievement of financial and performance reporting objectives.
- The risk of material misstatement due to fraud was not considered.

Internal audit did not inspect the adequacy and implementation of internal control

The internal audit unit did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice and standards.

Audit committee did not promote independent accountability and service delivery

The audit committee could not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice as it was appointed late.

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Nelspruit

30 November 2010

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence